IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2004 through the Fourth Quarter of 2008

The current Idaho economic outlook is very similar to the forecast published in October 2004. Indeed, a comparison between the two forecasts is more accurately described as minor tune-up than a major overhaul. Most of the changes are minor because changes to the national forecast upon which they are based have been relatively small. Other changes reflect revisions to historical data. In most cases these revisions were relatively minor, except for the personal income data. In general, the revisions lowered the starting point for the Idaho personal income forecast. This is discussed in detail below.

Idaho nonfarm employment returned to a solid footing in 2004, after experiencing two years of disappointing growth in the previous two years. Over this two-year period, the state added about 4,500 new jobs. To put this in perspective, in 2004 alone Idaho gained over 14,600 jobs. The state's 2004 job recovery was not unexpected. In the October 2004 *Idaho Economic Forecast*, Idaho nonfarm payrolls were expected to expand about 13,500 in 2004. The difference between these two employment forecasts for 2004 is a miniscule 0.2%.

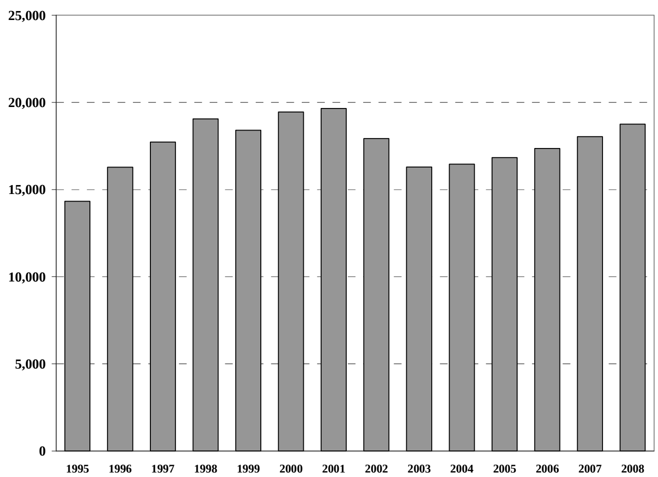
After 2004, Idaho nonfarm employment should grow slightly slower, averaging about 1.7% per year through 2008. Again, this is very close to what had been anticipated in the October 2004 *Idaho Economic Forecast*. In fact, although some of the details for the sectors differ, in 2007 the difference between the current and previous forecasts is just 52 jobs. (A comparison for 2008 was not possible because the previous forecast terminated in 2007.)

While the overall Idaho job outlook is virtually unchanged, the prospects for the state's goods-producing sector have improved. Employment is about 1.0% higher in 2005, 2006, and 2007, so there are about 1,000 more goods-producing jobs in 2007 than in the previous forecast. One of the reasons for this improvement is the forecast for Idaho manufacturing has been revised upwards. This partly reflects the revised historical data that show previous employment forecasts for this sector were too low. Specifically, it appears there were nearly 400 more goods-producing jobs in the second quarter of last year than had been forecast in October 2004. It is interesting to note that while the forecast for Idaho goods-producing employment has been revised up, its national counterpart has reduced. In 2007, the gain in Idaho goods-producing jobs is offset by a decline in forecasted nongoods-producing jobs. However, given the huge size of the nongoods-producing sector, the decline has a relatively minor percentage.

The differences between Idaho personal income forecasts are more noticeable than the employment projections. For example, the Idaho nominal personal income forecast for 2004 is one-half billion dollars (1.3%) lower than in October 2004 and it is $622 million (1.4%) lower in 2007. Most of this decrease can be traced to the revised Idaho personal income estimates that lowered the starting point for this forecast by 1.2%. While the starting level of the Idaho personal income forecast has changed since October 2004, its rate of growth remains comparable. Specifically, Idaho nominal personal income is expected to grow 5.4% annually from 2003 to 2007. This measure was forecast to advance 5.5% per year in the previous forecast. Even after adjusting for inflation, the forecasts for personal income are similar. Idaho real personal income is expected to advance 3.5% annually in the current forecast, which is the same as in the October 2004 forecast.

SELECTED IDAHO ECONOMIC INDICATORS

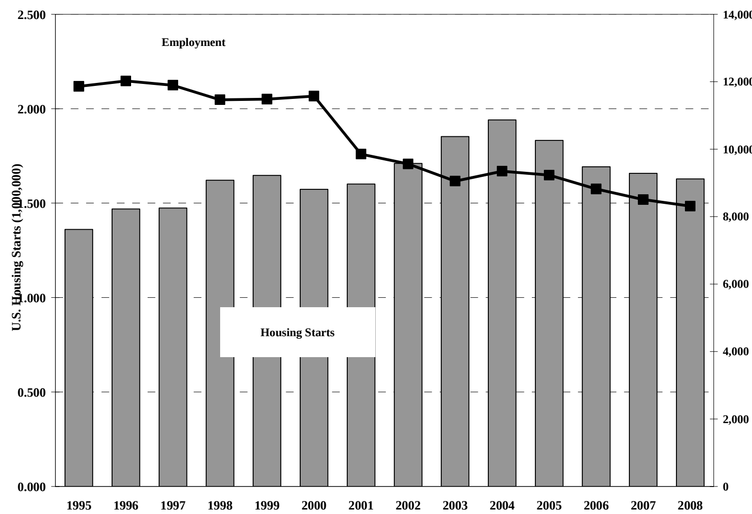
Idaho Computer & Electronic Products Employment



Computer and Electronics: Idaho's largest manufacturing sector, computers and electronics, continues to recover from one of them most severe downturns in the global electronics industry. Gem State manufacturers have navigated these industry doldrums before, but the most recent downturn has had the most negative impact on Idaho companies since the 1980s. The state's computer and electronics manufacturing sector shed jobs for the 11 quarters beginning with the second quarter of 2001. When the dust settled at the end of 2003, nearly 4,700 high-tech jobs had been lost. The companies losing employees is a who's who of the state's high-tech manufacturers. In 2001, Jabil Circuit, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard reduced their staffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. Much of the blame for this decline can be attributed to the fallout from the bursting high-tech bubble. Fueled by the demands of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% each year from 1995 through 1999. The output of U.S. computer and electronic equipment producers averaged over 31% annual growth during the second half of the 1990s. Unfortunately, real business investment retreated in 2001 and 2002. The computer and electronics sector suffered another blow in the winter of 2003 when Micron laid off over 1,000 employees in Idaho. This move was part of the company's plan to reduce costs in response to the glut of memory products that caused their prices to plummet. For example, Semico Research Corporation reported the price of 256 MB DRAM (Dynamic Random Access Memory) fell from $7.40 in the first quarter of 2002 to around $5.00 in the first quarter of 2003. The company's fortunes have improved since then, however. Micron posted net income of $157 million for its fiscal year 2004, which is a noticeable improvement from the nearly $1.3 billion loss for the previous fiscal year. In addition, Micron started its current fiscal year with another profitable quarter. Micron recently announced its payroll is back to its pre-layoff level. Idaho's computer and electronics sector's employment began growing again in the first quarter of 2004. This should be the first in a series of quarterly employment gains. This positive employment outlook reflects the impact of the anticipated business investment recovery. Real spending on information processing equipment by businesses is projected to grow 15.6% in 2004, 11.3% in 2005, 11.1% in 2006, 10.2% in 2007, and 10.2% in 2008. While the growth over the next few years is not up to par with previous years, it should be enough to keep this sector's employment growing through 2008. Specifically, Idaho's computer and electronics sector employment should rise 1.0% in 2004, 2.3% in 2005, 3.1% in 2006, 3.9% in 2007, and 4.0% in 2008.

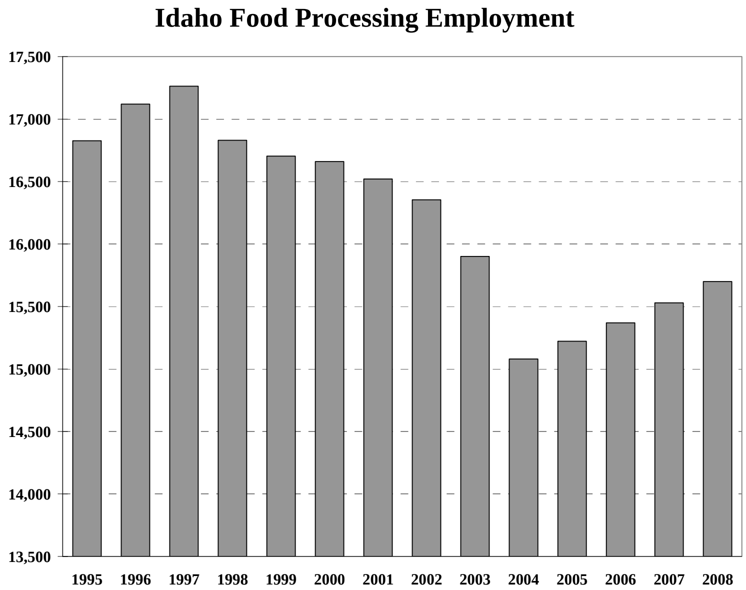
Logging and Wood Products: Idaho's logging and wood products sector posted a small employment gain in 2004—its first increase in four years. Unfortunately, this is not the first step in a return to prosperity, but rather it is a respite from the employment slide of recent years. After 2004, Idaho wood and lumber products employment is expected to decline once again. This sector has been shedding jobs in recent years. Employment in the lumber and wood products sector most recently peaked in 1996 and, except for two minor gains in 1999 and 2000, had been falling until 2004. During this period Idaho's lumber and wood products sector has suffered serious blows. The worst year was 2001, when employment declined a whopping 14.9%. Employment fell by another 3.0% in 2002 and 5.3% in 2003. The closing of several mills over this period caused a portion of these declines. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. One of the reasons these mill closures are distressing is because their job losses are permanent. Unlike cyclical layoffs, where employees are recalled when business conditions improve, workers from closed mills have no place to return to work. It should also be pointed out that these tend to be high-paying jobs and the mill is often a community's major employer. As a result, the fallout from a mill closure is felt not just inside the mill's gate, but also throughout the community. One of the most frustrating part of these setbacks is they took place when the U.S. housing industry was booming. This sector has traditionally prospered when the U.S. housing industry is healthy, but that has not been the case recently. The number of U.S. housing starts has increased in every year since 2000, and nearly 1.9 million starts are expected in 2004—its strongest showing since 1978—yet Idaho lumber and wood products employment declined until 2004. Last year's employment increase suggests the Gem State's logging and wood products sector may have finally benefited from the strong demand for housing. Another factor contributing to last year's gain is the U.S. dollars decline against the Canadian dollar. This improved the competitiveness of U.S. lumber and wood products versus Canadian forest products. Unfortunately, U.S. housing starts are expected to recede from their 2004 peak, so lumber and wood products demand is expected to ebb. As a result, this sector's fortunes will be dominated by supply factors. This does not bode well for the Gem State's lumber and wood products sector because supply factors have not been favorable to this sector for some time. This sector depends on timber from public lands, but this supply has been dwindling. A look at the last decade's harvests shows how steep the decline has been. According to the U.S. Department of Agriculture, 739 million board feet (mbf) were harvested in Idaho in 1991, or about 41% of the state total. In comparison, federal lands in Idaho yielded just 102 mbf a decade later, which was less than 10% of the total harvest. The uncertainty of supply from federal forest is just one cloud on this sector's forecast horizon. Another concern is the current manufacturing over capacity. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America and Canada. In addition, unresolved fair trade issues between the U.S. and Canada are another source of uncertainty.

Idaho Logging & Wood Products Employment and U.S. Housing Starts



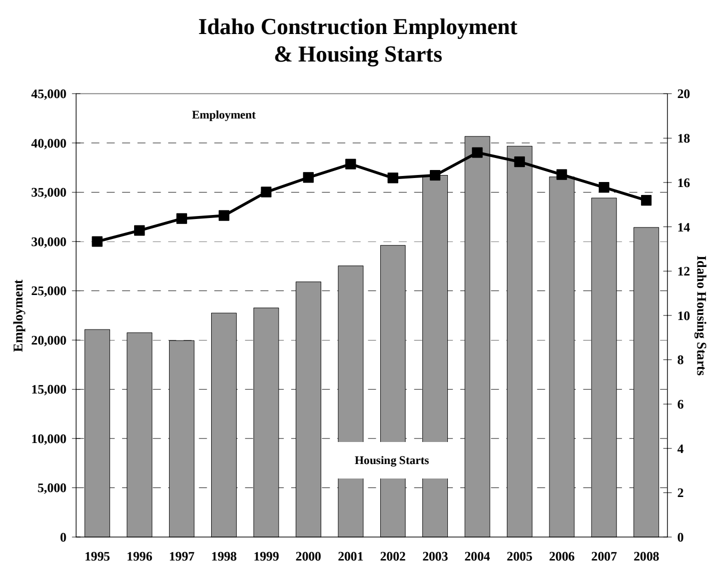
Sources: Global Insight and DFM

Idaho logging and wood products employment is expected to rise 3.2% in 2004, decline 1.2% in 2005, 4.5% in 2006, 3.5% in 2007, and 2.3% in 2008.



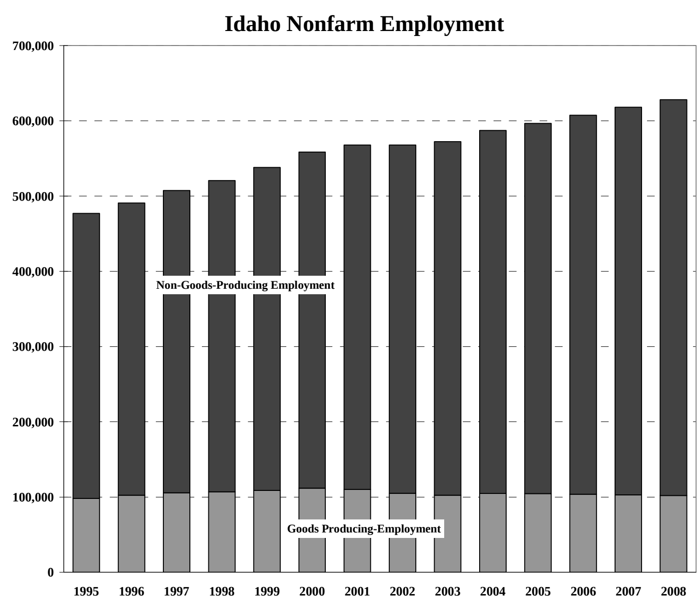
Food Processing: Employment in the Gem State's food processing sector is poised to expand beginning this year. This should mark the end to the long stretch of job declines that began in 1999. During this period, several iconic manufacturing facilities were shuttered. Nearly 360 jobs were lost when unfavorable business conditions caused J.R. Simplot Company to also close its Nampa meat packing plant in the fall of 2003. In addition, J.R. Simplot Company recently shuttered its Heyburn potato processing plant. The plant was built in 1960 and had run continuously since that time. However, the former processing site will be the home of new jobs. J.R. Simplot Company gifted the entire property of its Heyburn plant to the City of Burley. One company has already announced plans to move into the industrial park. The opening of the new Gossner plant will require over 100 construction workers, and the plant will create over 40 jobs when it becomes operational in October 2005. This new plant is symbolic of the growing presence of dairy industry in the state. According to the USDA, the size of Idaho's dairy herd has nearly doubled from 208,000 cows in 1994 to 404,000 cows in 2003. Over this same period, milk production more than doubled from 3.8 billion gallons to 8.8 billion gallons because of the increased output per cow. The amount of milk sold to plants also more than doubled during this time. Milk cash receipts grew from a little under one-half billion dollars in 1994 to over one billion dollars in 2003. Unfortunately, the Gem State's food processing sector's long-awaited employment gains have not offset the losses it has experienced in recent years. This sector's employment last peaked at 17,263 in 1997. After experiencing a 5.2% loss in 2004, Idaho food processing employment is projected to rise 0.9% in 2005, and about 1.0% annually in 2006, 2007, and 2008. In the last year, employment should be 15,699, which is about 1,600 below its 1997 peak.

Construction: Idaho's construction sector broadcast mixed signals in the middle of last year, with Idaho housing starts performing above expectations and construction employment falling below projections. Idaho housing starts are covered first. Estimates based on data that has become available since the October 2004 *Forecast* was produced show there were 376 more housing starts in the second quarter of 2004 than had been forecast in the fall. These data also show the third quarter was much stronger than had been anticipated in the October 2004 *Forecast*. At that time, Idaho housing starts had peaked in the second quarter of 2004, and would slowly

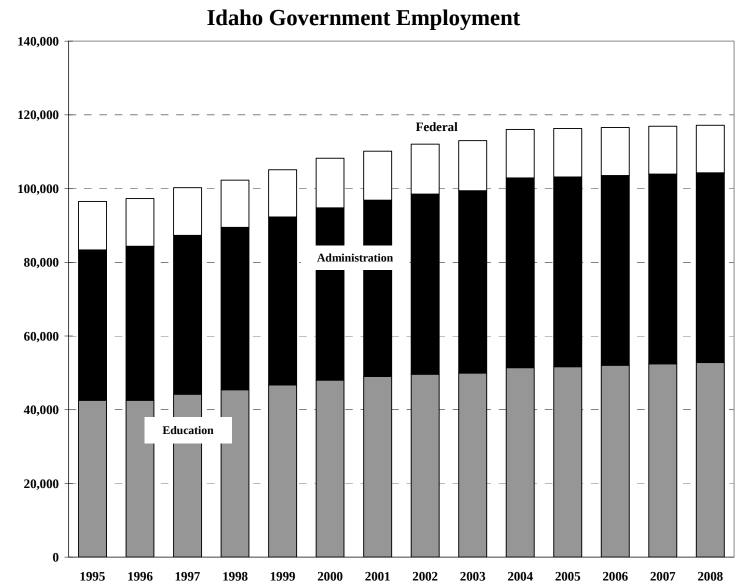


decline over the forecast period. The current data show housing starts rose steeply in the third quarter of 2004 instead of declining, with both single- and multiple-units showing significant increases. Idaho single-unit starts swelled to over 16,300 in the third quarter of 2004, which were nearly 1,800 more than had been previously forecast. There were nearly 750 more multiple-units starts than had been previously projected. Despite the higher housing starts, Idaho construction employment was actually lower than in the previous forecast. Specifically, it had been predicted in the October 2004 *Forecast* that construction employment would increase at a 11.7% annual rate to 39,980 in the second quarter of 2004. The current employment data show the number of construction jobs did increase, but to only 39,368. In the third quarter of 2004, there were 538 fewer jobs than had been previously forecasted. The new data have changed some of the details of the Idaho housing and construction projections, but their general outlooks remain unchanged from the previous forecast. For example, it was previously forecast that Idaho housing starts had peaked in the second quarter of 2004 and then would slowly decline thereafter. The current Idaho housing forecast calls for starts to peak in the third quarter of last year, then decline slowly over the forecast horizon. The reasons for the declines are the same for both forecasts. Eventually housing starts will succumb to rising mortgage rates and slower population growth. While these factors may cause the construction sector to sputter, this important engine of economic growth is not expected to collapse. Over the forecast period total Idaho housing starts are expected to fall from 18,077 in 2004 to 13,968 in 2008. Thus, while Idaho housing starts represent a decline from high levels of activity, they remain high by historical standards. Likewise, the Idaho construction employment declines from 39,031 in 2004 to 34,181 in 2008 represents a comfortable margin above its historical average.

Nongoods-Producing Industries: The importance of the state's nongoods-producing sector cannot be overstated. Like its national counterpart, the nongoods-producing sector accounts for the lion's share of nonfarm Idaho jobs and is expected to be the state's top job producer over the forecast period. Nongoods-producing employment accounts for eight of every ten nonfarm jobs in Idaho. The two largest nongoods employers are services and trade, representing three-fourths of nongoods-producing employment, or over 60% of Idaho total nonfarm employment. The services category is the larger of the two categories. The three largest services components are: professional and business services; education and health services; and leisure and hospitality services. The next largest group consists of financial services; transportation, warehousing, and utilities; and other services. The smallest sector is information services. The trade sector consists of its retail and wholesale components. The retail component accounted for over 73,000 jobs in 2004 and is roughly three times the size of the wholesale component. The nongoods-producing sector usually leads overall job growth, and this decade is no exception. For example, the number of nongoods jobs expanded at a 1.9% annual pace from 2000 through 2004, while Idaho total nonfarm employment grew 1.3% per year. The services component has risen faster in recent years than the trade component. While Idaho services employment has increased in every year since 2000 through 2004, trade employment expanded only in 2004. Professional and business services



should be one of strongest performers during the next few years. After experiencing a relatively anemic showing in 2003, professional and business services employment should expand an average of 3.9% per year through 2008. Education and health services employment should benefit from increased demand for health services caused by the aging population. Education and health services should grow 3.1% annually. Leisure and hospitality services employment is forecast to increase an average of 2.8% annually. Financial services employment growth is projected to average 2.4%, while transportation, warehousing, and utilities are expected to average 1.2% growth. Other services should advance 1.6% yearly. Idaho's high-quality labor force should continue to attract call centers, with the number of information services jobs growing 3.6% annually. Retail trade should average 2.1% growth over the forecast period, while wholesale trade advances at a 2.0% yearly pace.



Government: Idaho's state and local government sector is forecast to experience tepid employment growth over the next few years. Specifically, after a 3.5% jump in 2004, the number of jobs will advance by less than 0.5% annually in the remaining years of the forecast. This is a marked change from the 1990s when state and local employment combined averaged more than 3% growth per year. This job spurt resulted from the state's population boom in the 1990s. Idaho's population grew over 27%, or an average of about 2.5% per year from 1990 to 2000. In comparison, the U.S. economy grew about half as fast during that decade. Idaho owes a great deal of this population growth to migration. The Gem State was relatively unscathed by the 1990-91 recession, which made it an attractive oasis in an economic desert. It was particularly attractive to Californians seeking to escape the ravages of one of the Golden State's most devastating downturns. Not only was California reeling from the 1990-91 recession, but it was also suffering the impacts of defense industry consolidations and military base closures. New arrivals poured into Idaho at such a pace that in the early 1990s net migration was higher than the number of births. The state's rapid population increase strained all levels of government. This put governments in catch-up mode for a good portion of the 1990s. As a result, Idaho state and local government employment growth averaged 3.0% from 1991 to 2000. As the U.S. economy boomed in the late 1990s, net migration into the Gem State tapered off. By the end of that decade net migration dipped below 13,000—which was less than its peak of 27,168 in 1993. It is expected to decline steadily over the forecast period, dropping well below 8,000 in 2008. Idaho's total population is forecast to grow about 1.5% per year. As Idaho's population growth slows, so will its state and local government employment. As was mentioned above, beginning with 2005 state and local employment should expand by less than 0.5% per year. Virtually all the growth will take place in the education-related component of government, with the noneducation component remaining essentially flat. It should be noted that the huge increase in Idaho non-education related employment in 2004 results form a data revision, so it should be used with caution. On an annual basis, Idaho noneducation related employment should advance 4.1% in 2004, but remain flat for 2005 to 2008. In comparison, the state's education employment is projected to increase just less than 1.0% per year. The federal government component is a relatively small part of Idaho employment. It accounted for 13,620 jobs in 2003, which is much less than the nearly 100,000 state and local government jobs in Idaho. Unlike state and local employment, the number of federal jobs in Idaho is set by factors beyond its borders. Federal budget writers in Washington, D.C. mainly determine federal employment in Idaho. The return of federal deficits does not bode well for Idaho federal government employment. Federal government employment in Idaho is expected to shrink slowly over the next few years, going from 13,133 in 2004 to 12,906 in 2008.